

**KUUMBA ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Wilmington, Delaware**

FINANCIAL STATEMENTS

JUNE 30, 2005

KUUMBA ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

Table of Contents

| | |
|--|--------------|
| INDEPENDENT AUDITORS' REPORT | 1 - 2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION | 3 - 8 |
| BASIC FINANCIAL STATEMENTS SECTION | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 9 |
| Statement of Activities | |
| - For the Year Ended June 30, 2005 | 10 |
| - For the Year Ended June 30, 2004 | 11 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 12 |
| Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets | 13 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 14 |
| Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to Statement of Activities | 15 |
| Notes to Financial Statements | 16 - 24 |
| REQUIRED SUPPLEMENTARY INFORMATION SECTION | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund | 25 |
| SUPPLEMENTARY SECTION | |
| Combining Balance Sheet - General Fund | 26 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund | 27 |
| Schedule of Expenditures by Natural Classification - General Fund | 28 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 29 - 30 |
| Schedule of Findings and Recommendations | 31 - 37 |

Dover, Delaware
800.355.8210

Media, Pennsylvania
610.565.5222

INDEPENDENT AUDITORS' REPORT

202 Bancroft Building
3411 Silverside Road
Wilmington, Delaware 19810
302.478.8940

FAX: 302.478.0133
www.btcpa.com
info@btcpa.com

September 2, 2005

Board of Directors
Kuumba Academy Charter School
Wilmington, Delaware

We have audited the accompanying basic financial statements of the governmental activities and general fund of Kuumba Academy Charter School (the "School"), Wilmington, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information in the financial statements has been derived from the School's financial statements as of and for the year ended June 30, 2004 and, in our report dated August 27, 2004, we expressed unqualified opinions on the respective financial statements of the governmental activities and general fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of Kuumba Academy Charter School as of June 30, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 8 and page 25, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Kuumba Academy Charter School

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kuumba Academy Charter School's basic financial statements. The schedules on pages 26-28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

**MANAGEMENT'S DISCUSSION
AND ANALYSIS SECTION**

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited
For Fiscal Year Ended June 30, 2005**

This discussion and analysis of the financial performance of Kuumba Academy Charter School ("Kuumba") provides an overview of the School's financial activities for the fiscal year ended June 30, 2005.

Financial Highlights

Kuumba's net assets reflect a \$55,878 positive balance. Program revenues accounted for \$486,369, or 21 percent, of total revenue, and general revenues accounted for \$1.848 million, or 79 percent.

The School received an MBNA pledge for \$1 million over five years to be applied to the initial building renovation/construction loan of \$2.65 million. In the year ended June 30, 2005, payments totaling \$200,000 were applied to the loan as a lease payment to the Christina Cultural Arts Center (CCAC). A balloon payment in the amount of \$2.075 million was due on December 1, 2004. The debt was jointly held with CCAC and extended to March 2005, at which time the loan was subsequently refinanced with CCAC as the sole debtor. Since the debt was for the benefit of Kuumba, the School will pay the loan through CCAC. (See Note 5 for details.) Currently the School does not receive any significant capital/facilities funding from federal, state and local aid.

The governmental fund reported a negative fund balance in the amount of \$12,597.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

Reporting Kuumba Academy as a Whole

Fiscal year 2005 is the School's fourth year of operations. One of the most important questions asked about school finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as educational related legislation, student enrollment growth, facility conditions and other issues in arriving at a conclusion regarding the overall health of the School.

Reporting the School's Most Significant Fund

Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the year-end balances available for spending in future periods. This fund is reported using the modified accrual basis of accounting which measures cash and other

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2005**

financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs and/or operations. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund is reconciled in the basic financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the School, assets exceed liabilities by \$55,878 at the close of the fiscal year. The School's unrestricted net assets were a negative \$12,597. This deficit will be funded with future surplus. The remaining \$68,475 was invested in capital assets net of related debt.

An analysis of fiscal year 2005 follows:

| | Net Assets (amounts expressed in thousands) | |
|-------------------------------|--|---------------------|
| | Governmental Activities | |
| | 2005 | 2004 |
| Assets: | | |
| Current assets | \$ 206 | \$ 194 |
| Noncurrent assets | 68 | 30 |
| Total Assets | <u>274</u> | <u>224</u> |
| Liabilities: | | |
| Current liabilities | 218 | 175 |
| Total Liabilities | <u>218</u> | <u>175</u> |
| Net Assets: | | |
| Investment in capital assets, | | |
| Net of related debt | 68 | 30 |
| Unrestricted (Deficit) | <u>(12)</u> | <u>19</u> |
| Total Net Assets | <u><u>\$ 56</u></u> | <u><u>\$ 49</u></u> |

The unrestricted net assets deficit will be funded with future surplus.

The School is able to report, this year as well as last year, that there is a positive balance in net assets for the School as a whole, as well as for its governmental type activities.

Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2005

Statement of Activities
(amounts expressed in thousands)

| | Governmental Activities | |
|---|-------------------------|--------------|
| | 2005 | 2004 |
| Revenues: | | |
| General revenue: | | |
| Charges to school districts | \$ 602 | \$ 534 |
| Payments from primary government | 1,104 | 1,004 |
| Earnings on cash and investments | 5 | 5 |
| Other local sources | 137 | 131 |
| Program revenue: | | |
| Charges for services | 22 | 19 |
| Operating grants and contributions | 464 | 378 |
| Total Revenue | <u>2,334</u> | <u>2,071</u> |
| Expenses: | | |
| Instructional services | 1,835 | 1,456 |
| Support services: | | |
| Operation and maintenance of facilities | 306 | 497 |
| Transportation | 88 | 63 |
| School lunch services | 98 | 92 |
| Total Expenses | <u>2,327</u> | <u>2,108</u> |
| CHANGE IN NET ASSETS | <u>7</u> | <u>(37)</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>49</u> | <u>86</u> |
| NET ASSETS, END OF YEAR | <u>\$ 56</u> | <u>\$ 49</u> |

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Charges to school districts increased as a result of an increase in student enrollment, as well as an increase in per pupil allocation from the respective districts. Operating grants and contributions increased due to an increase in grants received in 2005 as a result of the School obtaining additional grants to help offset the costs of the School. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenue for the governmental activities.

(amounts expressed in thousands)

| | 2005 Services | | 2004 Services | |
|---|-----------------|-----------------|-----------------|-----------------|
| | Total Cost | Net Cost | Total Cost | Net Cost |
| Governmental Activities: | | | | |
| Instructional services | \$ 1,835 | \$ 1,638 | \$ 1,456 | \$ 1,317 |
| Support services: | | | | |
| Operation and maintenance of facilities | 306 | 96 | 497 | 297 |
| Transportation | 88 | 88 | 63 | 63 |
| School lunch services | 98 | 19 | 92 | 33 |
| Total Expenses | <u>\$ 2,327</u> | <u>\$ 1,841</u> | <u>\$ 2,108</u> | <u>\$ 1,710</u> |

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2005**

THE SCHOOL'S FUNDS

The School's governmental fund reported a deficit fund balance of \$12,597, which is below last year's total as a result of increased operating expenses. Instructional services increased due to the increase in personnel costs and health benefits. Operation and maintenance of facilities decreased due to a reduction in the School's lease obligation. The obligation was reduced due to refinancing a previous renovation loan over a longer amortization period.

Governmental Fund

The tables that follow assist in illustrating the financial activities of the general fund.

(amounts expressed in thousands)

| | 2005 Actual | 2004 Actual |
|----------------------------------|------------------------|------------------------|
| Revenues: | | |
| Charge to school districts | \$ 602 | \$ 534 |
| State aid | 1,107 | 1,024 |
| Federal aid | 194 | 99 |
| Earnings on cash and investments | 5 | 5 |
| Contributions | 267 | 259 |
| Rentals and sales | 91 | 107 |
| School lunch fees | 22 | 19 |
| Other local sources | 46 | 24 |
| Total Revenues | <u>\$ 2,334</u> | <u>\$ 2,071</u> |

(amounts expressed in thousands)

| | 2005 Actual | 2004 Actual |
|---|------------------------|------------------------|
| Expenditures | | |
| Current: | | |
| Instructional services | \$ 1,825 | \$ 1,397 |
| Operation and maintenance of facilities | 304 | 545 |
| Transportation | 87 | 63 |
| Food services | 97 | 92 |
| Capital outlays: | | |
| Equipment | 52 | 35 |
| Total Expenditures | <u>\$ 2,365</u> | <u>\$ 2,132</u> |

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2005**

The majority of Kuumba Academy's total revenue (82 percent) comes from federal and state sources and local school districts. State and local revenue are contingent upon the School's total enrollment population and the students' residential districts. The socio-economic diversity and special needs of the School's population dictate entitlement to federal funding, which accounts for only eight percent of total revenue. Contributions account for 11 percent of total revenue. The reliance on this revenue is to support programs and facility expenditures that are not allotted for in federal, state and local funds.

General Fund Budget Information

Kuumba Academy's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

Appropriate adjustments are made to the budget based on unanticipated revenue increases or shortfalls due to federal, state and Delaware Department of Education requirements and/or legislation, lack of contributions, etc. Some appropriations required changes in functional categories due to spending patterns.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 25.

Revenues

Federal Aid - The unfavorable variance of \$88,819 is attributed mainly to the School's not receiving its dissemination grant of \$100,000.

Expenditures

Salaries - The favorable variance of \$180,402 is attributed to a reduction in several staff positions during the beginning of the school year which were not replaced.

Employment Costs - The unfavorable variance of \$65,774 is attributed mainly to more employees selecting the family coverage that was not originally reflected in the budget.

Contractual Services - The favorable variance of \$189,468 is attributed to a reduction in substitute teachers and fewer expenses in professional development.

Supplies and Materials - The unfavorable variance of \$109,994 is attributed to the School purchasing an entirely new math curriculum, to include some related supplemental supplies and materials, for the whole school.

Capital Assets

The School has \$68,475 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisition for government totaled \$52,071, and depreciation was \$13,956. Detailed information regarding capital assets activity is included in the notes to the basic financial statements.

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2005**

Long-Term Debt

The School does not have any debt as of June 30, 2005.

Factors Expected to have an Effect on Future Operations

The School has identified a growing need to provide students with additional support services and educational programs. Many of these programs will require additional resources not adequately funded with federal, state or local district revenue. Also, potential cutbacks in educational spending at the federal and state level could further extend the School's financial resources to meet the State's accountability requirements. In anticipation of these events, the School is taking steps to increase the percentage of funding from nongovernmental resources.

Contacting the School's Financial Management

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's Director of Finance's Office at (302) 472-6450.

BASIC FINANCIAL STATEMENTS SECTION

**KUUMBA ACADEMY CHARTER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2005**

| | <u>Governmental Activities</u> | |
|---|--------------------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | | |
| Unrestricted | \$ 106,851 | \$ 160,247 |
| Restricted | 3,835 | 4,965 |
| Receivables | | |
| Due from Appoquinimink School District | 1,064 | - |
| Due from Brandywine School District | 19,501 | 6,645 |
| Due from Christina School District | - | 17,170 |
| Due from Christina Cultural Arts Center | 11,061 | - |
| Due from Colonial School District | 24,520 | - |
| Due from Red Clay Consolidated School District | 22,129 | - |
| Due from Department of Education | 7,108 | 929 |
| Other - before and after care | 5,571 | 4,034 |
| Other receivables | <u>3,620</u> | <u>-</u> |
| Total Current Assets | 205,260 | 193,990 |
| Noncurrent Assets: | | |
| Capital assets, net of depreciation | <u>68,475</u> | <u>30,360</u> |
| TOTAL ASSETS | <u>\$ 273,735</u> | <u>\$ 224,350</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | | |
| Trade | \$ 23,708 | \$ 30,232 |
| Due to State of Delaware - pension costs | 22,947 | 15,188 |
| Accrued salaries | 167,367 | 125,091 |
| Deferred revenue | <u>3,835</u> | <u>4,965</u> |
| Total Current Liabilities | <u>217,857</u> | <u>175,476</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 68,475 | 30,360 |
| Unrestricted (Deficit) | <u>(12,597)</u> | <u>18,514</u> |
| Total Net Assets | <u>55,878</u> | <u>48,874</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 273,735</u> | <u>\$ 224,350</u> |

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

| | Expenses | Charges for Services | Program Revenues | Capital Grants and Contributions | Net (Expense) Revenues and Changes in Net Assets |
|---|----------------------|----------------------|-------------------|----------------------------------|--|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Instructional services | | | | | |
| Supporting services: | | | | | |
| Operation and maintenance of facilities | (306,074) | - | 197,059 | \$ - | \$ (1,637,918) |
| Transportation | (87,664) | - | 209,721 | - | (96,353) |
| School lunch services | (98,804) | 22,546 | 57,043 | - | (87,664) |
| | | | | | (19,215) |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>\$(2,327,519)</u> | <u>\$ 22,546</u> | <u>\$ 463,823</u> | <u>\$ -</u> | <u>(1,841,150)</u> |
| GENERAL REVENUES | | | | | |
| Charges to school districts | | | | | 602,023 |
| State aid not restricted to specific purposes | | | | | 1,103,550 |
| Earnings on cash and investments | | | | | 5,208 |
| Other local sources | | | | | 137,373 |
| TOTAL GENERAL REVENUES | | | | | <u>1,848,154</u> |
| CHANGE IN NET ASSETS | | | | | 7,004 |
| NET ASSETS, BEGINNING OF YEAR | | | | | <u>48,874</u> |
| NET ASSETS, END OF YEAR | | | | | <u>\$ 55,878</u> |

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

| | Expenses | Charges for Services | Program Revenues | Capital Grants and Contributions | Net (Expense) Revenues and Changes in Net Assets |
|---|----------------------|----------------------|-------------------|----------------------------------|--|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Instructional services | | | | | |
| Supporting services: | | | | | |
| Operation and maintenance of facilities | (497,146) | - | 200,000 | - | (297,146) |
| Transportation | (62,906) | - | - | - | (62,906) |
| School lunch services | (92,098) | 18,856 | 39,754 | - | (33,488) |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>\$(2,107,964)</u> | <u>\$ 18,856</u> | <u>\$ 378,116</u> | <u>\$ -</u> | <u>\$(1,710,992)</u> |
| GENERAL REVENUES | | | | | |
| Charges to school districts | | | | | 533,894 |
| State aid not restricted to specific purposes | | | | | 1,004,967 |
| Earnings on cash and investments | | | | | 4,531 |
| Other local sources | | | | | 130,687 |
| TOTAL GENERAL REVENUES | | | | | <u>1,674,079</u> |
| CHANGE IN NET ASSETS | | | | | (36,913) |
| NET ASSETS, BEGINNING OF YEAR | | | | | <u>85,787</u> |
| NET ASSETS, END OF YEAR | | | | | <u>\$ 48,874</u> |

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

| | General Fund | |
|--|-------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents: | | |
| Unrestricted | \$ 106,851 | \$ 160,247 |
| Restricted | 3,835 | 4,965 |
| Receivables | | |
| Due from Appoquinimink School District | 1,064 | - |
| Due from Brandywine School District | 19,501 | 6,645 |
| Due from Christina School District | - | 17,170 |
| Due from Christina Cultural Arts Center | 11,061 | - |
| Due from Colonial School District | 24,520 | - |
| Due from Red Clay Consolidated School District | 22,129 | - |
| Due from Department of Education | 7,108 | 929 |
| Other - before and after care | 5,571 | 4,034 |
| Other receivables | <u>3,620</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 205,260</u> | <u>\$ 193,990</u> |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES: | | |
| Accounts payable: | | |
| Trade | \$ 23,708 | \$ 30,232 |
| Due to State of Delaware - pension costs | 22,947 | 15,188 |
| Accrued salaries | 167,367 | 125,091 |
| Deferred revenue | <u>3,835</u> | <u>4,965</u> |
| Total Liabilities | <u>217,857</u> | <u>175,476</u> |
| FUND BALANCES: | | |
| Reserved for encumbrances | 250 | 3,035 |
| Unreserved | (13,811) | (3,840) |
| Restricted for textbooks and library | <u>964</u> | <u>19,319</u> |
| Total Fund Balances | <u>(12,597)</u> | <u>18,514</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 205,260</u> | <u>\$ 193,990</u> |

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
JUNE 30, 2005 AND 2004

Amounts reported for governmental activities in the statement of net assets are different because:

| | <u>2005</u> | <u>2004</u> |
|--|------------------|------------------|
| TOTAL FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS | \$ (12,597) | \$ 18,514 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets. | <u>68,475</u> | <u>30,360</u> |
| TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES | <u>\$ 55,878</u> | <u>\$ 48,874</u> |

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | <u>General Fund</u> | |
|---|---------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| REVENUES | | |
| Charges to school districts | \$ 602,023 | \$ 533,894 |
| State aid | 1,106,795 | 1,024,286 |
| Federal aid | 193,814 | 99,394 |
| Earnings on cash and investments | 5,208 | 4,531 |
| Contributions | 266,764 | 259,403 |
| Rentals and sales | 90,719 | 106,636 |
| School lunch fees | 22,546 | 18,856 |
| Other local sources | <u>46,654</u> | <u>24,051</u> |
| TOTAL REVENUES | <u>2,334,523</u> | <u>2,071,051</u> |
| EXPENDITURES | | |
| Current: | | |
| Instructional services | 1,825,574 | 1,396,797 |
| Operation and maintenance of facilities | 303,574 | 545,447 |
| Transportation | 87,664 | 62,906 |
| Food services | 96,751 | 92,098 |
| Capital Outlays: | | |
| Equipment | <u>52,071</u> | <u>35,002</u> |
| TOTAL EXPENDITURES | <u>2,365,634</u> | <u>2,132,250</u> |
| NET CHANGE IN FUND BALANCES | (31,111) | (61,199) |
| FUND BALANCES, BEGINNING OF YEAR | <u>18,514</u> | <u>79,713</u> |
| FUND BALANCES (DEFICIT), END OF YEAR | <u>\$ (12,597)</u> | <u>\$ 18,514</u> |

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

Amounts reported for governmental activities in the statement of activities are different because:

| | <u>2005</u> | <u>2004</u> |
|--|-----------------|--------------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ (31,111) | \$ (61,199) |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p> | | |
| Capital Outlays | 52,071 | 30,752 |
| Depreciation Expense | <u>(13,956)</u> | <u>(6,466)</u> |
| CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES | <u>\$ 7,004</u> | <u>\$ (36,913)</u> |

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Kuumba Academy Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter. Kuumba Academy Charter School was renewed for an additional five years through June 30, 2009.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

The financial statements of Kuumba Academy Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Kuumba Academy Charter School (the "School") are described below.

Reporting Entity

The School is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Charges to the School and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School.

Amounts reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Data

General fund budgets are presented on the modified accrual basis of accounting. Annual appropriations lapse at fiscal year end with the exception of those indicated as a fund balance reserve.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. Encumbrances outstanding as of June 30, 2005 and 2004 amounted to \$250 and \$3,035, respectively.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Capital Assets

The School defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

| | |
|-------------------------|-----------|
| Furniture and fixtures | 10 years |
| Machinery and equipment | 5-7 years |
| Leasehold improvements | 8 years |

Deferred Revenues

Deferred revenues represent funds received in advance which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues consist of \$3,835 and \$4,965 as of June 30, 2005 and 2004, respectively.

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation - Vacation must be taken and cannot be accumulated from year to year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Sick Leave - Sick leave allowances are 10 days per full-time employee and cannot be accumulated from year to year.

There were no compensated absences as of June 30, 2005 and 2004, respectively.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2004 basic financial statements to be comparative with the current year presentation.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2005 and 2004, the School had a cash equivalent balance of \$110,686 and \$165,212, respectively. These funds are part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets being depreciated: | | | | |
| Equipment | \$ 29,387 | \$ 17,845 | \$ - | \$ 47,232 |
| Leasehold improvements | - | 20,000 | - | 20,000 |
| Furniture and fixtures | <u>8,402</u> | <u>14,226</u> | - | <u>22,628</u> |
| Total Capital Assets Being Depreciated | <u>37,789</u> | <u>52,071</u> | - | <u>89,860</u> |

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Accumulated depreciation: | | | | |
| Equipment | (6,588) | (9,193) | - | (15,781) |
| Leasehold improvements | - | (2,500) | - | (2,104) |
| Furniture and fixtures | (841) | (2,263) | - | (841) |
| Total accumulated depreciation | <u>(7,429)</u> | <u>(13,956)</u> | <u>-</u> | <u>(21,385)</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 30,360</u> | <u>\$ 38,115</u> | <u>\$ -</u> | <u>\$ 68,475</u> |

Depreciation expense was charged to the following activities:

Governmental Activities:

| | |
|---------------------------|------------------|
| Instructional services | \$ 9,403 |
| Operation and maintenance | 2,500 |
| School lunch services | <u>2,053</u> |
| | <u>\$ 13,956</u> |

NOTE 4 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55
 - b. 25 years service - any age
- Service retirement:
 - a. 15 years service - age 60
 - b. 30 years service - any age
 - c. 5 years service - age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION PLAN (cont'd)

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's contribution to the State PERS for the years ended June 30, 2005 and 2004 was \$132,800 and \$95,106, respectively.

NOTE 5 LEASING ARRANGEMENTS

The School leases its facility and copier equipment from Christina Cultural Arts Center, Inc. (a related party) under operating leasing arrangements expiring at various dates through April 2012. The Center is considered a related party due to the involvement of its employees in the day-to-day activities of the School and because of various services the Center provides to the School which are billed periodically. Total rental expense for the fiscal years ended June 30, 2005 and 2004 was \$178,367 and \$418,930, respectively.

At June 30, 2005, minimum future rental payments under noncancelable leasing arrangements having remaining terms in excess of one year for the remaining years and in the aggregate are:

| <u>Years Ending June 30,</u> | <u>Facility</u> | | <u>Copier</u> |
|---|--------------------|-------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2006 | \$ 59,101 | \$ 122,369 | \$ 2,617 |
| 2007 | 62,640 | 118,830 | 437 |
| 2008 | 66,391 | 115,079 | - |
| 2009 | 70,367 | 111,103 | - |
| 2010 | 74,581 | 106,889 | - |
| 2011-2012 | <u>1,792,675</u> | <u>145,027</u> | <u>-</u> |
| Minimum future rental payments required | <u>\$2,125,755</u> | <u>\$ 719,297</u> | <u>\$ 3,054</u> |

The School has an obligation to Christina Cultural Arts Center, Inc. to pay rent on the building. The rent is payable in monthly installments of \$15,122 which includes interest payments.

NOTE 6 RELATED PARTY TRANSACTIONS

The leasing arrangement between the School and Christina Cultural Arts Center, Inc. calls for basic rent equal to the debt service each year with a balloon payment of \$1,651,250 on April 1, 2012.

NOTE 7 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various outstanding commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Co-Surety on Mortgage Notes

The School has guaranteed mortgage note obligations for Christina Cultural Arts Center, Inc. (a related party) with Delaware Community Investment Corporation in the original amount of \$2,140,000, maturing April 1, 2004, and Wilmington UDAG Corporation in the original amount of \$200,000, maturing February 1, 2012. Installments on the notes are payable monthly. As of June 30, 2005, the outstanding principal balance was \$2,125,755 for the Delaware Community Investment Corporation note.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

NOTE 9 ECONOMIC DEPENDENCY

School revenues that constitute in excess of 10 percent of total revenues are comprised of the following:

| | |
|---|------------|
| State Subsidy | 47 percent |
| Local sources (primarily charges to school districts) | 26 percent |

NOTE 10 REQUIRED PRIMARY GOVERNMENT DISCLOSURES

The primary government requires a classification of receipts which differs from generally accepted accounting principles at the component unit/charter school level. The following are condensed government-wide financial statements as of and for the years ended June 30, 2005 and 2004:

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 10 REQUIRED PRIMARY GOVERNMENT DISCLOSURES (cont'd)

STATEMENT OF NET ASSETS
(Amounts expressed in thousands)

| | <u>2005</u> | <u>2004</u> |
|---|---------------|---------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and investments | | |
| Unrestricted | \$ 107 | \$ 160 |
| Restricted | 4 | 5 |
| Receivables | | |
| Due from Appoquinimink School District | 1 | - |
| Due from Brandywine School District | 20 | 7 |
| Due from Christina School District | - | 17 |
| Due from Christina Cultural Arts Center | 11 | - |
| Due from Colonial School District | 24 | - |
| Due from Red Clay Consolidated School District | 22 | - |
| Due from Department of Education | 7 | 1 |
| Other - Before and after care | 6 | 4 |
| Other receivables | 4 | - |
| Total Current Assets | <u>206</u> | <u>194</u> |
| Noncurrent assets: | | |
| Capital assets, net of depreciation | <u>68</u> | <u>30</u> |
| TOTAL ASSETS | <u>\$ 274</u> | <u>\$ 224</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Accounts payable | | |
| Trade | \$ 24 | \$ 30 |
| Due to State of Delaware - pension costs | 23 | 15 |
| Accrued salaries | 167 | 125 |
| Deferred revenue | 4 | 5 |
| Total Current Liabilities | <u>218</u> | <u>175</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 68 | 30 |
| Unrestricted | <u>(12)</u> | <u>19</u> |
| Total Net Assets | <u>56</u> | <u>49</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 274</u> | <u>\$ 224</u> |

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 10 REQUIRED PRIMARY GOVERNMENT DISCLOSURES (cont'd)

STATEMENT OF ACTIVITIES
(Amounts expressed in thousands)

| | <u>2005</u> | <u>2004</u> |
|------------------------------------|----------------|----------------|
| TOTAL EXPENSES | \$ (2,328) | \$ (2,108) |
| PROGRAM REVENUES: | | |
| Charges for services | 23 | 19 |
| Operating grants and contributions | <u>210</u> | <u>200</u> |
| NET (EXPENSES) REVENUES | <u>(2,095)</u> | <u>(1,889)</u> |
| GENERAL REVENUES: | | |
| Payments from primary governments | 1,960 | 1,717 |
| Investment earnings | 5 | 4 |
| Miscellaneous | <u>137</u> | <u>131</u> |
| TOTAL GENERAL REVENUES | <u>2,102</u> | <u>1,852</u> |
| CHANGE IN NET ASSETS | 7 | (37) |
| NET ASSETS, BEGINNING OF YEAR | <u>49</u> | <u>86</u> |
| NET ASSETS, END OF YEAR | <u>\$ 56</u> | <u>\$ 49</u> |

REQUIRED SUPPLEMENTARY INFORMATION SECTION

KIU MBA ACADEMY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|---|------------------|------------------|--------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Charges to school districts | \$ 569,268 | \$ 569,268 | \$ 602,023 | \$ 32,755 |
| State aid | 1,112,480 | 1,112,480 | 1,106,795 | (5,685) |
| Federal aid | 282,633 | 282,633 | 193,814 | (88,819) |
| Earnings on cash and investments | 7,000 | 7,000 | 5,208 | (1,792) |
| Contributions | 214,518 | 214,518 | 266,764 | 52,246 |
| Rentals and sales | - | - | 90,719 | 90,719 |
| School lunch fees | 60,000 | 60,000 | 22,546 | (37,454) |
| Other local sources | 142,931 | 142,931 | 46,654 | (96,277) |
| TOTAL REVENUES | <u>2,388,830</u> | <u>2,388,830</u> | <u>2,334,523</u> | <u>(54,307)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries | 1,212,163 | 1,212,163 | 1,031,761 | 180,402 |
| Employment costs | 274,282 | 274,282 | 340,056 | (65,774) |
| Travel | 12,200 | 12,200 | 11,626 | 574 |
| Contractual services | 474,157 | 474,157 | 284,689 | 189,468 |
| Communications | 5,000 | 5,000 | 7,985 | (2,986) |
| Public utilities service | 34,500 | 34,500 | 36,736 | (2,236) |
| Insurance | 23,500 | 23,500 | 16,586 | 6,914 |
| Transportation - buses | 102,000 | 102,000 | 87,664 | 14,336 |
| Land/building/facilities | 220,000 | 220,000 | 227,366 | (7,366) |
| Repairs and maintenance | 20,500 | 20,500 | 76,208 | (55,708) |
| Supplies and materials | 82,891 | 82,891 | 192,885 | (109,994) |
| Capital Outlays: | | | | |
| Equipment | 30,337 | 30,337 | 52,071 | (21,734) |
| TOTAL EXPENDITURES | <u>2,491,530</u> | <u>2,491,530</u> | <u>2,365,634</u> | <u>125,896</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(102,700)</u> | <u>(102,700)</u> | <u>(31,111)</u> | <u>71,589</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Appropriated fund balance | 107,811 | 107,811 | - | (107,811) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>107,811</u> | <u>107,811</u> | <u>-</u> | <u>(107,811)</u> |
| NET CHANGE IN FUND BALANCE | 5,111 | 5,111 | (31,111) | (36,222) |
| FUND BALANCE, BEGINNING OF YEAR | 18,514 | 18,514 | 18,514 | - |
| FUND BALANCE (DEFICIT), END OF YEAR | <u>\$ 23,625</u> | <u>\$ 23,625</u> | <u>\$ (12,597)</u> | <u>\$ (36,222)</u> |

NOTE: The School's budget is presented on the modified accrual basis of accounting.

SUPPLEMENTARY SECTION

KUUMBA ACADEMY CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2005

| | <u>State Allocation</u> | <u>Local Funding</u> | <u>Federal Funding</u> | <u>Totals</u> |
|---|-----------------------------|--------------------------|----------------------------|-------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents: | | | | |
| Unrestricted | \$ 3,502 | \$ 103,349 | \$ - | \$ 106,851 |
| Restricted | - | 3,835 | - | 3,835 |
| Receivables: | | | | |
| Due from Appoquinimink School District | - | 1,064 | - | 1,064 |
| Due from Brandywine School District | - | 19,501 | - | 19,501 |
| Due from Christina Cultural Arts Center | - | 11,061 | - | 11,061 |
| Due from Colonial School District | - | 24,520 | - | 24,520 |
| Due from Department of Education | - | 2,997 | 4,111 | 7,108 |
| Due from Red Clay Consolidated School District | - | 22,129 | - | 22,129 |
| Other - Before and After Care | - | 5,571 | - | 5,571 |
| Other receivables | - | 3,620 | - | 3,620 |
| TOTAL ASSETS | <u>\$ 3,502</u> | <u>\$ 197,647</u> | <u>\$ 4,111</u> | <u>\$ 205,260</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | | | | |
| Trade | \$ 11,500 | \$ 8,097 | \$ 4,111 | \$ 23,708 |
| Due to State of Delaware - pension costs | - | 22,947 | - | 22,947 |
| Accrued salaries | - | 167,367 | - | 167,367 |
| Deferred revenue | - | 3,835 | - | 3,835 |
| TOTAL LIABILITIES | <u>11,500</u> | <u>202,246</u> | <u>4,111</u> | <u>217,857</u> |
| FUND BALANCES: | | | | |
| Reserved for encumbrances | 250 | - | - | 250 |
| Unreserved | (9,212) | (4,599) | - | (13,811) |
| Restricted for textbooks and library | 964 | - | - | 964 |
| TOTAL FUND BALANCES (DEFICIT) | <u>(7,998)</u> | <u>(4,599)</u> | <u>-</u> | <u>(12,597)</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 3,502</u> | <u>\$ 197,647</u> | <u>\$ 4,111</u> | <u>\$ 205,260</u> |

KUUMBA ACADEMY CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | <u>State Allocation</u> | <u>Local Funding</u> | <u>Federal Funding</u> | <u>Totals</u> |
|---|-----------------------------|--------------------------|----------------------------|--------------------|
| REVENUES | | | | |
| Charges to school districts | \$ - | \$ 602,023 | \$ - | \$ 602,023 |
| State aid | 1,106,795 | - | - | 1,106,795 |
| Federal aid | - | - | 193,814 | 193,814 |
| Earnings on cash and investments | - | 5,208 | - | 5,208 |
| Contributions | - | 266,764 | - | 266,764 |
| Rental and sales | - | 90,719 | - | 90,719 |
| School lunch fees | - | 22,546 | - | 22,546 |
| Other local sources | - | 46,654 | - | 46,654 |
| TOTAL REVENUES | <u>1,106,795</u> | <u>1,033,914</u> | <u>193,814</u> | <u>2,334,523</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instructional services | 942,822 | 688,938 | 193,814 | 1,825,574 |
| Operation and maintenance of facilities | 91,823 | 211,751 | - | 303,574 |
| Transportation | 58,545 | 29,119 | - | 87,664 |
| Food services | 28,066 | 68,685 | - | 96,751 |
| Capital Outlays: | | | | |
| Equipment | <u>15,906</u> | <u>36,165</u> | - | <u>52,071</u> |
| TOTAL EXPENDITURES | <u>1,137,162</u> | <u>1,034,658</u> | <u>193,814</u> | <u>2,365,634</u> |
| NET CHANGE IN FUND BALANCES | (30,367) | (744) | - | (31,111) |
| FUND BALANCES (DEFICIT), BEGINNING OF YEAR | <u>22,369</u> | <u>(3,855)</u> | - | <u>18,514</u> |
| FUND BALANCES (DEFICIT), END OF YEAR | <u>\$ (7,998)</u> | <u>\$ (4,599)</u> | <u>\$ -</u> | <u>\$ (12,597)</u> |

KUUMBA ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

EXPENDITURES

Current:

| | |
|--------------------------|--------------|
| Salaries | \$ 1,031,761 |
| Employment costs | 340,056 |
| Travel | 11,626 |
| Contractual services | 284,689 |
| Communications | 7,986 |
| Public utility services | 36,736 |
| Insurance | 16,586 |
| Transportation | 87,664 |
| Land/building/facilities | 227,366 |
| Repairs and maintenance | 76,208 |
| Supplies and materials | 192,885 |

Capital Outlays:

| | |
|-----------|---------------|
| Equipment | <u>52,071</u> |
|-----------|---------------|

| | |
|--------------------|--------------------|
| TOTAL EXPENDITURES | <u>\$2,365,634</u> |
|--------------------|--------------------|

Dover, Delaware
800.355.8210
Media, Pennsylvania
610.565.5222

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

202 Bancroft Building
3411 Silverside Road
Wilmington, Delaware 19810
302.478.8940
FAX: 302.478.0133
www.btcpa.com
info@btcpa.com

September 2, 2005

Board of Directors
Kuumba Academy Charter School
Wilmington, Delaware

We have audited the financial statements of the governmental activities and each major fund of Kuumba Academy Charter School, Wilmington, Delaware as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kuumba Academy Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Kuumba Academy Charter School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and recommendations as items #02-1, #03-1, #04-2, #04-6 and #05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Board of Directors
Kuumba Academy Charter School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kuumba Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as Item #02-1.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of the Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

HUMAN RESOURCE FUNCTION

02-1 Finding

Review of the human resource function revealed that certain personnel files did not contain documentation of salary. Employee Withholding allowances Certificates or W-4, INS (Immigration and Naturalization Service) Form I-9, Teacher Certificates or background checks. Out of 24 files, all 24 had incomplete or missing information.

The Immigration Reform and Control Act of 1986 requires all employers to verify "employment eligibility" of any individual hired after November 6, 1986 by completing and retaining INS Form I-9.

The Delaware Code, Title 14, Section 507(c) states that "a charter school may, where it deems it beneficial to the success of its educational program, hire non-certified teachers so long as such teachers comprise no more than 35% of the teachers at the school."

Delaware Department of Education (DOE) requires that all final candidates for public school-related employment are required to have a criminal background check (DOE Administrative Code Section 745).

The Internal Revenue Code requires the information on the Employee's Withholding Allowance Certificate under Sections 3402(f)(2)(A) and 6109 and their regulations.

Recommendation

We recommended that the School develop monitoring procedures to ensure that all personnel files contain all necessary documentation required for compliance with federal, state and local laws.

Status

During our current year audit, we noted that five out of 10 personnel files did not contain updated salary information. We further noted that two out of 10 personnel files tested did not contain a completed I-9 form. This finding is still applicable for the current year.

Corrective Action Plan

The School has reviewed each of the current personnel files to ensure they were all in compliance with federal, state and local laws. The personnel files will be the responsibility of a designated person and periodically reviewed and/or updated throughout the year. The School also will utilize a checklist to ensure consistency and that all files contain the necessary paperwork. The employee and Human Resources will be responsible for ensuring that the required documentation is in the files.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

INVENTORY AND DETAILED RECORDS

03-1 Finding

During our prior year audit, we noted that updated records for property and equipment items are not being maintained on a School-wide basis. The establishment of updated subsidiary records will assist the Charter School in maintaining control over individual assets and provide a means whereby information pertinent to the property and equipment assets can be kept up to date.

Recommendation

We recommended that a physical count of property should be periodically taken and compared to the items carried on the detailed subsidiary records of property and equipment. Such physical counts will help to detect the loss or unauthorized use of valuable property.

Status

During our current year audit, we noted an improvement over the prior year fixed asset listing. However, we still recommend that the School conduct a physical count of property and compare to the items carried on the detailed subsidiary records listing of property and equipment.

Corrective Action Plan

Administration will make a comprehensive review of all School-wide assets and document them to specific categories, i.e., technology, audio-visual equipment, furniture and kitchen equipment.

SUPPORTING DOCUMENTATION - CASH RECEIPTS

03-5 Finding

During our review of cash receipts, we noted that not all receipts listed on the deposit tickets could be traced to a receipt. According to the School's internal control procedures, all deposits require the support of a receipt issued from a carbon copy book. We further noted that any staff member was not performing a reconciliation of daily receipts to the general ledger. This was due to management oversight.

Recommendation

We recommended that the Charter School implement procedures so that proper documentation is maintained for all receipts received in cash. One way to ensure proper receipts are given is the use of a carbon copy receipting book. We further recommend that the cash receipts be reconciled on a monthly basis.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Status

During our current year audit, we noted that all receipts tested had property supporting documentation. This finding is no longer applicable.

PROPER APPROVAL OF PAYMENT VOUCHERS

03-6 Finding

During our prior year audit, we noted that within a sample of 40 payment vouchers, 39 out of the 40 were not correctly approved in accordance with the Charter School's policy on internal controls. The policy clearly states that any payments under \$100 are to have an administrator's signature, and any payments greater than \$100 but less than \$2,500 need one administrator signature and a signature of a member of the Board of Directors. For payments over \$2,500, one signature from a member of the Board of Directors and two administrators signatures are required. This was a result of the School's management not participating in preparation and approval of payment vouchers. At the present time, an employee of Christina Cultural Arts Center, Inc. maintains all accounting records for the Charter School.

Recommendation

We recommended that the Board of Directors immediately transfer all duties to management of the Charter School. We further recommended that the Charter School take the appropriate action so that there is adherence to its formal written internal control policies concerning approval of payment vouchers.

Status

During our current year audit, we noted that beginning with the month of February 2005, the School has changed its payment voucher processing procedures. This finding is no longer applicable.

RECALCULATION OF INVOICES

04-1 Finding

During our prior year audit, we noted that invoices received by vendors for payment are not recalculated to ensure that the total amount indicated is correct. The School's internal control policy states that all invoices should be verified and properly approved prior to payment. This is due to management oversight. In order for the School to ensure that it is paying the correct amount for goods and services rendered, it is imperative that the total of each be recalculated.

Recommendation

We recommended that the School recalculate the total of each invoice prior to approval and that, since the School has multiple vendors which create their invoices via both computer- and manually-generated methods, each invoice be inspected closely for possible errors. We further recommended that all

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

invoices be paid in full unless otherwise noted. This will reduce the expenditures required to be paid by the School in late charges. In those cases in which there is a discrepancy between the invoiced amount and the actual amount, the discrepancy should be noted and corrected prior to payments being made.

Status

During our current year audit, we noted that there were no instances in which an invoice was not correct. This finding is no longer applicable.

SUPPORTING DOCUMENTATION

04-2 Finding

During our prior year audit, we noted that payments are not always made from an original invoice. This was due to management oversight. In order for the School to ensure that the payments being made are only for those costs incurred, it is imperative that its procedures on internal control be followed and all invoices be attached to the request for payment at the time of processing.

Recommendation

We recommended that the School follow its procedures on internal control and require all invoices to be attached to the payment vouchers prior to being processed for payments.

Status

During our current year audit, we noted that there were two instances in which the original invoice could not be located. This finding is still applicable for the current year.

Corrective Action Plan

Administration will continue to ensure that payments are made from an original invoice. However, the School will revise its current procedure to clearly specify exceptions wherein other support documentation, other than original invoices, may be accepted when payments are being processed.

CODING OF CONTRACT EMPLOYEES

04-3 Finding

During our prior year audit, we noted that multiple-contract employees were being paid through DFMS appropriations reserved for payment of salaries. In order to properly account for all salary- and benefit-related expenses, it is imperative that the School properly code contract employees through a contract service appropriation. We further noted that since these contractors are paid through a payroll appropriation and not via contract services, the State of Delaware does not automatically issue the

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

employee a Form 1099 for earnings during the year so that the School must notify the State as to the employees who are to be issued a Form 1099. This can result in untaxed income to the contract workers. This was due to management oversight.

Recommendation

We recommended that the School require all contracted employees be paid via a contract service appropriation. We further recommended that all payment vouchers be reviewed by an employee of the School to ensure that the account being charged for the disbursement is proper.

Status

During our current year audit, we noted that contract employees were being paid through the proper contract services code. This finding is no longer applicable.

REIMBURSEMENTS FOR EXPENSES

04-4 Finding

During our prior year audit, we noted that reimbursements for expenses incurred for School-related expense are not always paid through the use of a personal reimbursement form. This was due to management oversight. In order for both the School and the employee to properly track vendor payments and reimbursements, it is imperative that the School utilize the State of Delaware payment forms for each type of disbursement.

Recommendation

We recommended that the School use personal reimbursement forms for all payments made to employees for expenses incurred for business activities. This will ensure that the School's payments are properly recorded and that the employee is not taxed on the payments.

Status

During our current year audit, we noted no instances in which reimbursements were paid improperly. This finding is no longer applicable.

PROCESSING OF INVOICES

04-5 Finding

During our prior year audit, we noted that one invoice being paid by the School was not in the name of Kuumba Academy. This was due to management oversight. In order to maintain proper control over the expenditures being paid by the School, it is critical that all invoices be reviewed by management prior to the disbursement of funds in order to ensure that the disbursement is an expenditure incurred by the School.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

We recommended that the School follow its internal control procedures and require only those invoices which are addressed to the School be processed for payment.

Status

During our current year audit, we noted no instances in which an invoice was paid by the School that was not in the name of Kuumba Academy. This finding is no longer applicable.

REIMBURSEMENT OF CONTRACT EMPLOYEES

04-6 Finding

During our prior year audit, we noted that there are expenditures made to Christina Cultural Arts Center to reimburse for arts teachers who are employed by Christina Cultural Arts Center but teach at the School. These reimbursements are not supported in writing by an agreement between the Arts Center and the School. The School's internal control procedures require all expenditures to be properly approved by management. Center employees process these invoices prior to management approval, bypassing the control of management approval. This is due to management oversight. We further noted that the School pays for the employees' health benefits and an administrative fee to the Arts Center for this service.

Recommendation

We recommended that an agreement be put in writing to incorporate the following:

- 1) The salary rate at which the contract employee will be paid.
- 2) The rate at which an administrative fee will be assessed to the School for the services.
- 3) The additional expenditures that will be paid by the School (ie: healthcare).

Status

During our current year audit, we noted that there is not yet an agreement which supports the reimbursements. This finding is still applicable for the current year.

Corrective Action Plan

Going forward, the School will ensure that it has a written agreement from Christina Cultural Arts Center, Inc. or any other organization for the use of its staff.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

OPEN VENDOR ACCOUNTS

04-7 Finding

During our prior year audit, we noted that Kuumba Academy maintains an open account with various local vendors. These accounts are used by teachers at the School when supplies are needed for their classroom. We further noted that these accounts are not reconciled to the items purchased on a regular basis. This leaves the School susceptible to unapproved purchases in the name of the School. This was due to management oversight.

Recommendation

We recommended that the employees permitted to use these accounts at the local vendors be limited only to those in a position of authority.

Status

During our current year audit, we noted no instances in which supplies were improperly purchased through local vendors. This finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

DISBURSEMENTS

05-1 Finding

During our current year audit, we noted that payment vouchers (PVEs) were processed for payment before being properly approved. In accordance with the State of Delaware's Budget and Accounting Manual, all expenditures should be approved for payment prior to issuance of the check. In order to ensure that expenditures are proper and correct, it is critical that all invoices be reviewed by management prior to the disbursement of funds.

Recommendation

We recommend that management review and approve all invoices before they are processed for payment.

Corrective Action Plan

The system was designed to ensure only management has the authority to release funds for payment. In cases of paying routine invoices (i.e., utilities, going contractual services, preapproved purchases, etc.), there are exceptions when payment is made based on preauthorized spending. However, at least one administrator signs off on the PVEs prior to payment regardless of the dollar amount only in cases for which the purchase was preapproved at the highest level in accordance with the delegation of authorities. This may not have been clearly communicated in the School's policies and procedures. Management will revise the policies and procedures to reflect its current practices.